

The Treasury Note



A monthly newsletter
of municipal finance
October 1, 1997

Economic Expansion Continues For California

The Anderson Graduate School of Management at UCLA presented its business forecast at its 46th annual conference on September 17, 1997.

According to Larry J. Kimbell and Rajeev Dhawan, economists from the UCLA Business Forecasting Project, the nation's real Gross Domestic Product (GDP) is predicted to grow by 3.6% in 1997 and 2.1% in 1998 and 1999. Economists at UCLA are no longer concerned about inflation, predicting low inflation for the next quarter century or so.

The outlook for California continues to improve. Nonfarm employment is expected to grow by 3.4% in 1997, 2.5% in 1998, and 2.9% in 1999. Personal income in California is projected to have increases of 5.4% in 1997, 2.8% in 1998 and 4.0% in 1999. The unemployment rate is predicted to average 6.2% in 1997, rise slightly to 6.5% in 1998, and then drop to 5.9% in 1999.

Taxpayer Relief Act of 1997

On August 5, 1997, President Clinton signed into law the Taxpayer Relief Act of 1997 (the "Act"). The Act contained modifications to the federal tax laws applicable to tax-exempt bonds.

Under the prior law, nonprofit organizations could not have more than \$150 million of outstanding tax-exempt bonds issued to finance non-hospital purposes. This limitation has precluded large nonprofit universities from utilizing tax-exempt bonds to finance or refinance certain capital improvements. Other nonprofit organizations that provide outpatient healthcare, nursing home, low-income housing and other projects have also been restricted.

The Act provides that the \$150 million cap will not apply to bonds issued after August 5, 1997. As a result, more tax-exempt bonds will be issued by large universities and nonprofit organizations in the future.

Treasurer Sells RANs and State University Bonds

On September 3, the Treasurer sold \$3 billion worth of Revenue Anticipation Notes (RANs). The competitive sale drew total bids in excess of \$16.7 billion.

The RANs were awarded to the following successful bidders: Zions First National Bank (\$25 million), Union Bank of California, N.A. (\$25 million), Smith Barney Inc. (\$300 million), Prudential Securities Incorporated (\$50 million), PaineWebber Incorporated (\$150 million), Oppenheimer & Co., Inc. (\$25 million), Morgan Stanley & Co. Inc. (\$100 million), Merrill Lynch & Co. (\$50 million), Lehman Brothers (\$850 million), J.P. Morgan Securities Inc. (\$100 million), Goldman, Sachs & Co. (\$500 million), EVEREN Securities, Inc. (\$25 million), BT Alex. Brown Incorporated (\$100 million), Bear, Stearns & Co. Inc. (\$150 million), and BancAmerica Securities, Inc. (\$550 million). The State achieved an average net interest cost of 3.87 percent.

Public Resources Advisory Group served as financial advisor for the sale. Orrick, Herrington & Sutcliffe served as lead note counsel and Chan Law Group served as co-note counsel. Proceeds of the RANs are used for the State's short-term cash needs during the 1997-98 fiscal year.

On September 23, the Treasurer sold \$31 million worth of bonds for the California State University system in Long Beach to a syndicate led by PaineWebber Incorporated.

The true interest cost to the State was 5.35 percent. Proceeds of the sale will fund the construction of a new headquarters building to replace the old building, which required substantial improvements to meet seismic safety standards. In addition to a new six-story, 150,000 square-foot building, the project will also include a 15,000 square-foot auditorium. When completed, the project will provide office space and facilities for approximately 450 employees.

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Ask The State Treasurer

Q: How can I find out which State-issued bonds are available?

A: The State only wholesales its bonds to brokers who then retail the bonds to individual investors in the secondary markets. The State does not monitor the availability of State-issued bonds in the secondary markets. We do, however, suggest that you contact your broker. He or she should be able to find out which State issued bonds are available. The brokers have secondary market information available to them through their trading systems network.

Another way to obtain this type of information would be to follow our bond sales calendar available on the Internet site (<http://www.treasurer.ca.gov>) or in *The Treasury Note* (see below).

Q: My bond was called for early redemption recently. Is it necessary for me to endorse the back of the bond?

A: It is not required for you to endorse the back of the bond when your bond has matured or has been called for early redemption. However, if you are requesting that payment be made to someone other than yourself, all of the bondholders listed on the face of the bond must endorse a Bond Assignment. In addition all of the signatures must be Medallion Guaranteed.

??? Questions ???

Do you have a question you would like to ask the Treasurer? Send it to the *Investor Relations Program* at P.O. Box 942809, Sacramento, CA 94209-0001.

Bond Sales Calendar*

If you are interested in purchasing any of these bonds, please contact your broker about two weeks before the sale date. For updated information regarding upcoming sales, please contact the State Treasurer's office at (916) 653-3243.

BOND SALES	AMOUNT (in millions)	SALE DATE
General Obligation	\$1 Billion	October 8, 1997
Riverside County 4th District Court of Appeals	\$13	Fall/Winter 1997
State Public Works Board, California State University	\$163	Fall/Winter 1997
State Public Works Board, California Museum of Science and Industry	\$36	Fall/Winter 1997
State Public Works Board, UC Regents/California Department of Corrections	\$282	Fall/Winter 1997
State Public Works Board, Refundings-Various	\$754	Market Watch
East Bay State Building Refunding	\$53	Market Watch
Oakland State Building JPA	\$175	Spring 1998

***Subject to change without notice**

The Treasury Note Mailing List

If you would like to be on the mailing list to receive *The Treasury Note* monthly, please send your name and address to the *Investor Relations Program* at P.O. Box 942809, Sacramento, CA 94209-0001.

Notice of Redemption and Defeasance

This listing reflects redemptions and defeasance officially announced as of September 30, 1997.

Trustees of the California State University Housing System Revenue Bonds, Series AG (Full Redemption)-All bonds due November 1, 1998-2018 will be redeemed on November 1, 1997.

State of California, Department of Water Resources, Central Valley Project, Water System Revenue Bonds (Defeasance)

Series J-1, J-2 and J-3 (Partial)-\$42,920,000 due December 1, 2020, will be redeemed on June 1, 2001.

Series K-All bonds due December 1, 2021, will be redeemed on June 1, 2002.

Series O-All bonds due December 1, 2006, will be redeemed on December 1, 2005.

Series P-All bonds due December 1, 2014, and \$10,120,000 due December 1, 2029, will be redeemed on June 1, 2006.

If there are any questions regarding the redemption or defeasance, please call (916) 653-3451.

Attention Registered Bondholders:

The State Treasurer's office is planning to implement an Electronic Fund Transfer (EFT) program for bond principal and interest payments. If you would be interested in receiving your principal and interest payments via EFT, please call (916) 653-2884.